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SUBJECT: VIETNAM: WEN JIABAO TO DISCUSS TRADE, BORDER DURING VISIT

Reftels: A. Hanoi 558; B. Hanoi 1680; C. Hanoi 2638

1. (SBU) Summary and Comment: Chinese Prime Minister (PM) Wen Jiabao will join the parade of Asian and European leaders to the ASEM 5 summit in Hanoi October 7-9. Reflecting China's status as Vietnam's ideological soulmate and "big brother," Wen will be one of only five leaders to also have a bilateral official visit. Although border and territorial issues -- such as Vietnam's concern about the recent China-Philippines South China Sea agreement -- will be discussion topics, the main focus of the visit will be on trade and economic matters. Deliverables may include economic and trade agreements to increase investment and some tariff and quota changes designed to boost trade volume. The Vietnamese will ask China for a deadline for concluding WTO talks, but the PRC Embassy believes that setting a deadline would be premature. The subject of a Hu Jintao visit to Vietnam will reportedly not be on the "official agenda." We believe Vietnam's strong trade and investment ties and other unofficial relations with Taiwan -- which are in striking contrast with Vietnam's relatively modest economic interaction with China -- are at least partly driving the economic aspects of the visit. End Summary and Comment.

GVN PLANS FOR WEN'S VISIT

2. (U) PM Wen's Hanoi trip will mark the second bilateral head of government meeting this year, following Vietnamese PM Phan Van Khai's visit to China in May. GVN sources said the focus of Wen's talks will largely be on economic issues, with the two sides expected to sign ten agreements and memoranda of understanding in areas such as technical economic cooperation, electrical power development, rail line improvement and animal quarantine procedures. China and Vietnam are also expected to form a mechanism for regular meetings between Ministry of Trade and Ministry of Planning and Investment officials from both sides. In addition, China and Vietnam will sign an MOU on forming two cross-border "economic corridors" to facilitate trade and investment: Kunming-Lao Cai-Hanoi-Haiphong and Nanning-Son La-Hanoi-Haiphong. Wen will also participate in the groundbreaking ceremony for the China Cultural Palace in southern Hanoi.

3. (U) Dr. Do Tien Sam, Director of the Government-run Institute for Chinese Studies, told Pol/C October 4 that the largely economic focus of Wen's visit reflected concern in both countries that the development of bilateral political relations had outpaced that of economic relations. Specifically, Sam noted that, although bilateral trade volume was on the rise, Vietnam still ran a deficit with China. Furthermore, China ranks only fifteenth among foreign investors in Vietnam, but most of this investment was small-scale, not technologically advanced and had only limited job creation ability, he added. On the subject of Vietnam's WTO accession, Pham Cao Phong, a China expert at and Deputy Director General of the MFA-affiliated Institute for International Affairs, told Pol/C that Vietnam would seek from China a "WTO-related commitment" on the occasion of Wen's visit.

SPRATLY PROBLEMS

4. (SBU) Phong also said that bilateral political and territorial issues would be important agenda topics. For example, the signing of an agreement between China and the Philippines for "joint exploitation" of a contested area of the Spratlys was an issue of "serious concern." Although China and Vietnam had agreed recently to consult regarding decisions and actions that could affect one another in the South China Sea, China had not done so prior to inking its agreement with the Philippines, Phong noted. According to the China Institute's Dr. Sam, Vietnam was now concerned that China would try to reach similar agreements with Indonesia, Malaysia and Brunei (the three other claimants to the Spratlys, not counting Taiwan), and that this would put Vietnam in awkward position. For its part, the GVN believed

in ASEAN solidarity and was loathe to criticize its ASEAN partners, but China's attempts to "drive a wedge" among them was troublesome, Sam said.

15. (U) According to Sam, another bilateral issue on the agenda is the demarcation of the Vietnam-China land border. Although the two sides had a border agreement, the demarcation process was moving ahead slowly because of "Chinese complications." Among these were Chinese farmers crossing over the border to cultivate land and Chinese citizens exhuming and moving the graves of Vietnamese on the "wrong" side of the frontier. At this point, the GVN hoped that this problem could be worked out by local authorities and that it would not affect the larger bilateral relationship. Responding to Pol/C's question, Sam said that the subject of a possible Hu Jintao visit to Vietnam was not on the "official agenda" for Wen's visit. However, now that Hu has assumed all three senior PRC leadership positions, he will "surely" visit in the near future, Sam concluded.

PRC OFFICIAL DOWNPLAYS VISIT'S IMPORTANCE

16. (SBU) According to Li Jingfeng, Attache at the Chinese Embassy in Hanoi, Wen's visit will be "nothing special." Li told Poloff September 28 that the official focus of the visit would be economic relations and cooperation between the Vietnamese and Chinese Communist Parties. Li said that the two countries had set a goal to reach USD 10 billion in bilateral trade by 2010. To advance that goal, both sides would announce new trade privileges. China would "raise the quota and lower the tariff" on Vietnamese rice imports, as well as "some other commodities," and Vietnam would "lower tariffs on some Chinese manufactured goods." Li said he thought that, if tariff and quota restrictions were lifted, the natural trade volume between China and Vietnam would exceed USD 10 billion "within a short time." As a result, the two governments were in a position to follow through on what were usually rhetorical calls for increased economic links.

17. (U) Li said China was aware that the GVN wanted to extract a commitment to conclude bilateral WTO accession talks by a certain date. "We know they want this," Li said, "but we are not ready to provide it."

18. (SBU) In addition to the trade and commercial aspects of the visit, Li said the two sides need to discuss the border demarcation issue. The agreement had been signed, Li noted, but the actual placement of the markers was going extremely slowly "due to local disputes of only a few meters." He added that implementation of the fishing agreement the two sides had signed covering demarcation of the boundary in the Tonkin Gulf (ref A) was uncontroversial and so far "productive." Cooperation in other areas of maritime security -- such as combating piracy or interdicting illegal migrants or weapons shipments -- is possible in theory but has not been addressed in detail bilaterally, Li added. Both sides have formally committed to supporting such cooperation, but, without specific implementation plans, that agreement would remain rhetorical.

19. (SBU) Comment: As many as 35 heads of state and government will attend the ASEM 5 summit this week in Hanoi, including heads of state or government from every ASEAN+3 country except Burma. In addition to China, France, Germany, Belgium and Korea will have official visits before or after ASEM. For China and Vietnam, the issues and deliverables on Wen's agenda -- adjusting a number of quotas and tariffs, signing an agreement on "economic corridors" and discussing (again) border demarcation -- are all things that could have been accomplished during any of the hundred or so ministerial-level exchanges during the year. However, it appears that the attitude (evident in our conversations here) that "Wen will be here anyway, so let's make it a bilat" combined with China's status as the dominant power in Vietnam's immediate neighborhood to upgrade the visit to official bilateral status.

10. (SBU) Comment continued: The Taiwan issue did not come up in our meetings as a possible agenda topic for the Wen visit, but the issues raised on the Vietnamese side danced all around it. Economically, the relationship between Taiwan and Vietnam is the opposite of Vietnam's relationship with China: trade relations are in very good shape and by some measures Taiwan is Vietnam's largest investor. Taiwan has invested huge sums over a long period of time in a diverse array of industries and geographical areas. Official journals in Vietnam praise Taiwan's investment in Vietnam as an example other countries should follow, and Vietnam officially credits Taiwan investment for raising the capacity of and living standards for large numbers of Vietnamese workers. In contrast, China's investment in Vietnam is extremely low. Actual investment is even lower than the official numbers, since Vietnam includes Hong Kong (which itself includes a great deal of Taiwan investment

flowing through Hong Kong subsidiary companies) in its calculation of Chinese investment. In the political China-Taiwan equation, Vietnam is staunchly pro-China. At this point, however, the relationship with Taiwan is far more valuable economically to Vietnam, and the key aspects of this state visit may be in some part designed to address this contradiction. End comment.
MARINE